

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Isabella County Road Commission	County Isabella
Fiscal Year End September 30, 2006	Opinion Date November 22, 2006	Date Audit Report Submitted to State March 7, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

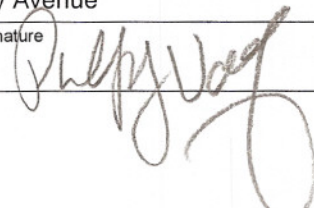
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
Zip 49788			
Authorizing CPA Signature 	Printed Name Phillip J. Wolf, CPA	License Number 1101017275	

ISABELLA COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

ISABELLA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

James R. McDonald
Vice - Chairman

Robert Curtiss
Chairman

Stephen Jackson
Member

Fred Walkington
Interim - Manager

Deborah A. Buesking
Financial Director/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the accompanying financial statements of the governmental activities and major fund of the Isabella County Road Commission (a component unit of the County of Isabella, Michigan) as of and for the year ended September 30, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Isabella County Road Commission as of September 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the Isabella County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Isabella County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 22, 2006

Management's Discussion and Analysis

Using This Annual Report

The Isabella County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 25 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 5.2% from \$59 million to \$63 million for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements increased. Restricted net assets, those restricted mainly for Act 51 purposes increased. The primary reason for the increases was due to increases in federal support for road projects. Increasing interest rates and gasoline tax revenue also negatively impacted net assets.

Net assets as of the years ended September 30, 2005 and 2006 is as follows:

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2006</u>
Current and Other Assets	\$ 2,146,024	\$ 4,508,336
Capital Assets	<u>59,161,958</u>	<u>61,164,983</u>
Total Assets	<u>\$ 61,307,982</u>	<u>\$ 65,673,319</u>
Current Liabilities	\$ 1,126,133	\$ 2,423,510
Other Liabilities	<u>776,095</u>	<u>755,970</u>
Total Liabilities	<u>1,902,228</u>	<u>3,179,480</u>
Net Assets		
Invested in Capital Assets – Net of Related Debt	58,397,604	60,397,822
Restricted	<u>1,008,150</u>	<u>2,096,017</u>
Total Net Assets	<u>\$ 59,405,754</u>	<u>\$ 62,493,839</u>

A summary of changes in net assets for the years ended September 30, 2005 and 2006 is as follows:

	<u>Governmental Activities</u> <u>2005</u>	<u>Governmental Activities</u> <u>2006</u>
Program Revenues		
Charges for Services	\$ 1,023,852	\$ 1,652,567
Grants and Contributions	7,995,279	9,017,124
Other	13,364	14,359
General Revenues		
Interest Income	17,541	38,741
Gain (Loss) on Disposal of Equipment	<u>122,376</u>	<u>34,288</u>
Total Revenues	<u>9,172,412</u>	<u>10,757,079</u>
Program Expenses		
Primary Roads	2,500,251	2,849,701
Local Roads	1,468,450	4,149,438
Interest Expense	34,406	36,151
Compensated Absences and Other	(19,219)	11,688
Equipment Expenses	331,361	117,923
Administrative	<u>471,277</u>	<u>504,093</u>
Total Expenses	<u>4,786,526</u>	<u>7,668,994</u>
Excess (Deficiency) Before Transfers	4,385,886	3,088,085
Appropriations	<u>102,832</u>	<u>-</u>
Changes in Net Assets	4,488,718	3,088,085
Beginning Net Assets	<u>54,917,036</u>	<u>59,405,754</u>
Ending Net Assets	<u>\$ 59,405,754</u>	<u>\$ 62,493,839</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the general operations fund increased \$1,079 thousand as compared to an increase of \$358 thousand in the fund balance for the year ended September 30, 2005. Total revenues were \$10.8 million, an increase of \$1.6 million as compared to last year. This change in revenues resulted primarily from an increase in State sources.

Total expenditures were \$9.9 million, an increase of \$1 million as compared to last year. This change in expenditures is primarily the increase in local road projects in the current year.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2006 was higher than the actual receipts by \$1.1 million. This was due, in a large part, to the projection of federal, state and local road participations. The road commission budgets for the receipt of funds for projects on primary and local roads. This year, the revenue from federal contributions was lower than projected in the amount of \$353 thousand and private sources by \$665 thousand.

Road Commission expenditures were projected at \$11.4 million while actual expenditures were \$9.9 million. This resulted in total expenditures under budget by \$1.5 million. There are several items that account for most of the variance in the projection of the budget. The largest share of the variance is in the area of local and primary road preservation. Our engineering and maintenance departments projected that work in these two areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year end.

Capital Asset and Debt Administration**Capital Assets**

The road commission had the following amounts invested in capital assets as follows:

	<u>2005</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Land and Improvements	<u>\$ 18,239,470</u>	<u>\$ 20,478,452</u>
Other Capital Assets		
Buildings and Improvements	739,570	745,192
Road Equipment	5,414,813	5,429,022
Other Equipment	567,388	693,583
Infrastructure and Improvements	<u>65,346,314</u>	<u>61,558,319</u>
Total Capital Assets at Historic Cost	<u>90,307,555</u>	<u>68,426,116</u>
Total Accumulated Depreciation	<u>(31,145,597)</u>	<u>(27,739,585)</u>
Total Net Capital Assets	<u>\$ 59,161,958</u>	<u>\$ 61,164,983</u>

Current year's major additions included the following:

Reconstruction of Bridges	<u>\$ 464,054</u>
Various Resurfacing Projects	<u>\$ 5,119,323</u>
Trucks/Equipment	<u>\$ 338,084</u>
Buildings	<u>\$ 5,622</u>

Debt

The road commission has limited debt obligations. Bonds and notes issued have been paid currently. The road commission has long-term debt in the amount of \$945,516 which represents compensated absences, notes payable, and bonds payable.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when adopting the fiscal year 2007 budget. One of the factors is the economy. The road commission derives approximately 60% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Isabella County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Isabella County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Isabella County Road Commission administrative offices at 2261 E. Remus Road, Mt. Pleasant, Michigan 48858.

Basic Financial Statements

Isabella County Road Commission

Statement of Net Assets September 30, 2006

ASSETS

Current Assets:

Cash and Equivalents	\$ 1,337,014
Accounts Receivable:	
Michigan Transportation Fund	855,808
Due from Other Units	1,772,625
Due on County Road Agreements	124,235
Sundry Accounts	119,535
Land Contract	13,884
Inventories:	
Road Materials	13,789
Equipment, Parts and Materials	172,136
Prepaid Expenses	<u>99,310</u>

Total Current Assets 4,508,336

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>61,164,983</u>
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Total Assets \$ 65,673,319

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 1,079,445
Contracts Payable	935,791
Due to State of Michigan	19,217
Accrued Liabilities	63,960
Deferred Revenue	24,489
Escrow and Other	27,500
Interest Payable	14,354
Notes Payable	14,546
Bonds Payable	175,000
Advances	69,208

Noncurrent Liabilities:

Notes Payable	163,261
Bonds Payable	400,000
Vested Employee Benefits	<u>192,709</u>

Total Liabilities 3,179,480

NET ASSETS

Investment in Capital Assets -

Net of Related Debt	60,397,822
Restricted for County Road	<u>2,096,017</u>

Total Net Assets \$ 62,493,839

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Statement of Activities For the Year Ended September 30, 2006

Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 2,849,701
Local Road Maintenance and Preventive Maintenance	4,149,438
Net Equipment Expense	117,923
Net Administrative Expense	504,093
Compensated Absences	(8,386)
Interest Expense	36,151
Other	<u>20,074</u>

Total Program Expenses 7,668,994

Program Revenues:

Charges for Services:	
License and Permits	28,431
Charges and Other	14,359
Contributions from Local Units	212
Operating Grants and Contributions:	
Michigan Transportation funds	5,076,950
Investment Earnings	38,741
Capital Grants and Contributions:	
Federal Grants	1,648,312
State Grants	425,102
Contributions from Local Units	1,866,760
Contributions from Private Sources	<u>1,623,924</u>

Total Program Revenues 10,722,791

Net Program Revenues 3,053,797

General Revenues:

Gain on Equipment Disposal	<u>34,288</u>
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Total General Revenues 34,288

Changes in Net Assets 3,088,085

Net Assets:

Beginning of Year	<u>59,405,754</u>
End of Year	<u>\$ 62,493,839</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Balance Sheet September 30, 2006

	Governmental Fund Type General Operating Fund
<u>ASSETS</u>	
Cash and Equivalents	\$ 1,337,014
Accounts Receivable:	
Michigan Transportation Fund	855,808
Land Contract	13,884
Other Governmental Units	1,772,625
Due on County Road Agreements	124,235
Sundry Accounts	119,535
Inventories:	
Road Materials	13,789
Equipment, Parts, and Materials	172,136
Prepaid Expenses	<u>99,310</u>
Total Assets	<u>\$ 4,508,336</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts Payable	\$ 1,079,445
Contracts Payable	935,791
Accrued Liabilities	63,960
Due to State of Michigan	19,217
Advances	69,208
Escrow and Other	<u>51,989</u>
Total Liabilities	<u>2,219,610</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>2,288,726</u>
Total Fund Equities	<u>2,288,726</u>
Total Liabilities and Fund Equities	<u>\$ 4,508,336</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2006

Total Governmental Fund Balance	\$ 2,288,726
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	61,164,983
Interest accrued, but not due until the following year.	(14,354)
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(945,516)</u>
Net Assets of Governmental Activities	<u>\$ 62,493,839</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission**Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended September 30, 2006**

	<u>General Operating Fund</u>
Revenues:	
License and Permits	\$ 28,431
Federal Sources	1,648,312
State Sources	5,502,052
Contributions from Local Units	1,866,972
Charges for Services	11,725
Interest and Rents	39,776
Other Revenue	<u>1,659,811</u>
Total Revenues	<u>10,757,079</u>
Expenditures:	
Public Works	9,673,856
Capital Outlay	(29,602)
Debt Service	<u>214,247</u>
Total Expenditures	<u>9,858,501</u>
Excess of Revenues Over (Under) Expenditures	<u>898,578</u>
Other Financing Sources:	
Note Proceeds	<u>180,903</u>
Total Other Financing Sources	<u>180,903</u>
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures	1,079,481
Fund Balance – October 1, 2005	<u>1,209,245</u>
Fund Balance – September 30, 2006	<u>\$ 2,288,726</u>

The Notes to Financial Statements are an integral part of this statement.

Isabella County Road Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2006

Net Change in Fund Balance – Total Governmental Funds	\$ 1,079,481
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,008,169
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Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	(5,144)
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Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Loan proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net assets.	(2,807)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental funds.	<u>8,386</u>
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Changes in Net Assets of Governmental Activities	<u>\$ 3,088,085</u>
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Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Isabella County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Isabella County Road Commission.

A. Reporting Entity

The Isabella County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners which is elected biennially for a full term of six years. The Road Commission may not issue bonded debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Isabella County Road Commission, a discretely presented component unit of Isabella County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Isabella County Road Commission. There is only one major fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the only major fund of the Commission.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Isabella County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Isabella County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Compensated Absences (Vacation and Sick Leave)**

The maximum accumulation of vacation hours according to the union agreement is 200 hours. Any excess of the maximum is lost on the anniversary date of hire. Employees accrue hours monthly. Each regular full-time employee is provided with 8 hours per month of sick leave benefit. Each employee receives payment for leave not used upon retirement or death up to 240 hours.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Budgetary Procedures**

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (manager) and Financial Director prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end.

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified into the following categories:

Petty Cash	\$	150
Imprest Cash		1,000
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)		<u>1,335,864</u>
Total Cash	\$	<u>1,337,014</u>

NOTE 3 - CASH AND DEPOSITS (Continued)

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial investment credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Isabella and would receive its proportional share of holdings.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$452,593 of the Commission's bank balance of \$552,593 was exposed to credit risk because it was uninsured and uncollateralized. Other cash balances are pooled with the County of Isabella funds and would receive a proportional share of insurance.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Isabella County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Isabella County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Isabella County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Isabella County Road Commission for the current year was as follows:

	Beginning Balances 10/01/05	Additions	Adjustments/ Deductions	Ending Balances 09/30/06
Capital Assets Not Being Depreciated				
Land	\$ 225,882	\$ -	\$ -	\$ 225,882
Land Improvements	126,167	-	-	126,167
Land Improvement – Infrastructure	<u>17,887,421</u>	<u>1,117,805</u>	<u>(1,121,177)</u>	<u>20,126,403</u>
Subtotal	<u>18,239,470</u>	<u>1,117,805</u>	<u>(1,121,177)</u>	<u>20,478,452</u>
Capital Assets Being Depreciated				
Buildings	739,570	5,622	-	745,192
Road Equipment	5,414,813	211,344	197,135	5,429,022
Shop Equipment	123,501	3,926	-	127,427
Office Equipment	128,945	7,720	-	136,665
Engineers' Equipment	104,176	5,465	545	109,096
Yard and Storage	210,766	109,629	-	320,395
Infrastructure – Bridges	15,259,710	464,054	1,213,936	14,509,828
Infrastructure – Roads	<u>50,086,604</u>	<u>4,001,518</u>	<u>7,039,631</u>	<u>47,048,491</u>
Subtotal	<u>72,068,085</u>	<u>4,809,278</u>	<u>8,451,247</u>	<u>68,426,116</u>
Less Accumulated Depreciation				
Buildings	390,372	18,080	-	408,452
Road Equipment	4,638,864	313,927	191,991	4,760,800
Shop Equipment	92,667	8,802	-	101,469
Office Equipment	72,367	9,125	-	81,492
Engineers' Equipment	89,846	7,322	545	96,623
Yard and Storage	117,470	10,908	-	128,378
Infrastructure – Bridges	4,314,643	270,855	360,988	4,224,510
Infrastructure – Roads	<u>21,429,368</u>	<u>2,376,630</u>	<u>5,868,137</u>	<u>17,937,861</u>
Subtotal	<u>31,145,597</u>	<u>3,015,649</u>	<u>6,421,661</u>	<u>27,739,585</u>
Net Capital Assets Being Depreciated	<u>40,922,488</u>	<u>1,793,629</u>	<u>2,029,586</u>	<u>40,686,531</u>
Total Net Capital Assets	<u>\$ 59,161,958</u>	<u>\$ 2,911,434</u>	<u>\$ 908,409</u>	<u>\$ 61,164,983</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to operations of the Isabella County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 1,375,504
Local Road Maintenance and Preventive Maintenance	1,271,981
Equipment	313,927
Administrative	16,447
Other	<u>37,790</u>
Total Depreciation Expense	<u>\$ 3,015,649</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Isabella County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Isabella County Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Isabella County Road Commission's competitive bargaining units and requires a contribution from the employees of 2 percent of the first \$4,200 wages and then 5% of remaining earnings.

Annual Pension Costs – For fiscal year ended 2006, the Isabella County Road Commission's annual pension cost of \$96,687 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2004, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2005 is as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 7,022,452	\$ 7,271,160	\$ 7,466,150
Actuarial Accrued Liability	7,177,695	8,376,471	8,792,769
Unfunded AAL	155,243	1,105,311	1,326,619
Funded Ratio	98%	87%	85%
Covered Payroll	1,649,747	1,860,015	1,410,212
UAAL as a Percentage of Covered Payroll	9%	59%	94%

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 3,594	100%	0
2004	37,808	100%	0
2005	86,639	100%	0

Defined Contribution Pension Plan (Michigan Municipal Employees' Retirement System)

The Isabella County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 3 percent of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested.

The Isabella County Road Commission's total payroll during the current year was \$1,713,887. The current year contribution was calculated based on covered payroll of \$1,713,887, resulting in an employer contribution of \$101,403 and employee contributions of \$176,142.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2006, the federal aid received and expended by the Road Commission was \$1,648,312 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Changes in Long-Term Debt</u>			
	<u>10/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/06</u>
Note Payable	\$ -	\$ 180,903	\$ 3,096	\$ 177,807
MTF Bonds Payable	750,000	-	175,000	575,000
Compensated absences (1)	<u>201,095</u>	<u>-</u>	<u>8,386</u>	<u>192,709</u>
Total	<u>\$ 951,095</u>	<u>\$ 180,903</u>	<u>\$ 186,482</u>	<u>\$ 945,516</u>

(1) The change in compensated absences is shown as a net addition.

NOTE 8 - LONG-TERM DEBT (Continued)

	<u>10/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/06</u>	<u>Due Within One Year</u>
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NOTE PAYABLE:

Note payable to finance company, payable in monthly installments of \$1,974, interest rate of 5.475%, secured by equipment, due June 2011.

\$	-	\$	180,903	\$	3,096	\$	177,807	\$	14,546
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BONDS PAYABLE:

\$1,725,000 General Obligation Bonds
Payable of Isabella County over
10 years including sliding scale interest
rate of 4.70% maturing in 2009.

\$	750,000	\$	-	\$	175,000	\$	575,000	\$	175,000
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Annual debt service requirements:

	<u>MTF Series 1999 Bonds</u>			<u>Note Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Notes and Bonds Payable:						
2007	\$ 175,000	\$ 26,662	\$ 201,662	\$ 14,546	\$ 9,141	\$ 23,687
2008	200,000	18,700	218,700	15,343	8,344	23,687
2009	200,000	9,400	209,400	16,183	7,504	23,687
2010	-	-	-	17,069	6,618	23,687
2011	-	-	-	114,666	4,353	119,019
Total Bonds Payable	\$ 575,000	\$ 54,762	\$ 629,762	\$ 177,807	\$ 35,960	\$ 213,767

NOTE 9 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes \$150 to \$350 per month for health coverage per retiree based on years of service scale. The Commission's obligation ceases upon the employee attaining the minimum age for Medicare coverage. Total post employment benefit payments for fiscal year 2006 were \$31,800. At September 30, 2006, eight retirees were eligible to receive benefits.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2006.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

Supplementary Information

Isabella County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 6,900	\$ 26,500	\$ 28,431	\$ 1,931
Federal Sources				
Surface Transportation Program	268,604	216,986	216,986	-
Bridge	221,865	255,310	255,309	(1)
Other Grants	594,176	1,529,645	1,176,017	(353,628)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,275,880	3,347,221	3,315,092	(32,129)
Local Road	1,693,672	1,770,485	1,751,858	(18,627)
Economic Development	-	392,222	377,232	(14,990)
Critical Bridge	41,600	47,871	47,870	(1)
Contributions from Local Units				
Townships	814,313	1,366,461	1,332,548	(33,913)
Other	-	561,972	534,424	(27,548)
Charges for Services				
Salvage Sales	7,000	7,700	7,555	(145)
Other	1,250	4,225	4,170	(55)
Interest and Rents	11,535	39,950	39,776	(174)
Other Revenue				
Gain on Disposals	-	34,288	34,288	-
Other	255	1,050	1,599	549
Private Contributions	<u>130,883</u>	<u>2,289,588</u>	<u>1,623,924</u>	<u>(665,664)</u>
Total Operating Revenue	7,077,933	11,901,474	10,757,079	(1,144,395)
Other Financing Sources:				
Note Proceeds	-	180,903	180,903	-
Appropriation from Primary Government	<u>210,405</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Budget	<u>\$ 7,288,338</u>	<u>\$ 12,082,377</u>	<u>\$ 10,937,982</u>	<u>\$ (1,144,395)</u>

Isabella County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2006

	Original Budget	Final, Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction	\$ 1,025,823	\$ 2,797,461	\$ 2,415,628	\$ 381,833
Preservation	519,219	1,323,695	1,261,315	62,380
Maintenance	1,207,300	1,394,797	1,302,308	92,489
Local Road				
Construction	-	216,430	34,004	182,426
Preservation	1,603,007	2,312,540	1,643,196	669,344
Maintenance	1,859,055	2,467,871	2,375,315	92,556
Equipment Expense – Net	314,074	206,701	117,923	88,778
Administrative Expense – Net	503,500	505,546	504,093	1,453
Capital Outlay – Net	(289,500)	3,042	(29,602)	32,644
Debt Service				
Principal	175,000	191,068	178,096	12,972
Interest	33,188	38,186	36,151	2,035
Other	<u>5,000</u>	<u>21,339</u>	<u>20,074</u>	<u>1,265</u>
Total Expenditures	6,955,666	11,478,676	<u>\$ 9,858,501</u>	<u>\$ 1,620,175</u>
Fund Balance – October 1, 2005	<u>1,209,245</u>	<u>1,209,245</u>		
Total Budget	<u>\$ 8,164,911</u>	<u>\$ 12,687,921</u>		

Other Supplementary Information

Isabella County Road Commission**Analysis of Changes in Fund Balances
For the Year Ended September 30, 2006**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 7,240,036	\$ 3,456,814	\$ 241,132	\$ 10,937,982
Total Expenditures	<u>5,288,882</u>	<u>4,350,939</u>	<u>218,680</u>	<u>9,858,501</u>
Excess of Revenues Over (Under) Expenditures	1,951,154	(894,125)	22,452	1,079,481
Optional Transfers In (Out)	<u>(894,125)</u>	<u>894,125</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,057,029	-	22,452	1,079,481
Fund Balance – October 1, 2005	<u>985,026</u>	<u>-</u>	<u>224,219</u>	<u>1,209,245</u>
Fund Balance – September 30, 2006	<u>\$ 2,042,055</u>	<u>\$ -</u>	<u>\$ 246,671</u>	<u>\$ 2,288,726</u>

Isabella County Road Commission

Analysis of Revenues For the Year Ended September 30, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 28,431	\$ 28,431
Federal Sources				
Surface Transportation Program	216,986	-	-	216,896
Bridge	251,040	4,269	-	255,309
Other	814,307	361,710	-	1,176,017
State Sources				
Michigan Transportation Fund				
Engineering	6,391	3,609	-	10,000
Primary Road	3,315,092	-	-	3,315,092
Local Road	-	1,751,858	-	1,751,858
Economic Development	377,232	-	-	377,232
Critical Bridge	47,070	800	-	47,870
Contributions from Local Units				
Townships	774,338	558,210	-	1,332,548
Other	534,424	-	-	534,424
Charges for Services				
Salvage Sales	-	-	7,555	7,555
Other	-	-	4,170	4,170
Interest and Rents	37,859	-	1,917	39,776
Other Revenue				
Gain on Disposals	19,790	-	14,498	34,288
Other	-	-	1,599	1,599
Private Contributions	845,507	776,358	2,059	1,623,924
Other Financing Sources:				
Note Proceeds	-	-	180,903	180,903
Total Revenue	<u>\$ 7,240,036</u>	<u>\$ 3,456,814</u>	<u>\$ 241,132</u>	<u>\$ 10,937,982</u>

Isabella County Road Commission**Analysis of Expenditures
For the Year Ended September 30, 2006**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Construction	\$ 2,415,628	\$ -	\$ -	\$ 2,415,628
Preservation	1,261,315	-	-	1,261,315
Maintenance	1,302,308	-	-	1,302,308
Local Road				
Construction	-	34,004	-	34,004
Preservation	-	1,643,196	-	1,643,196
Maintenance	-	2,375,315	-	2,375,315
Equipment Expense – Net	36,580	72,240	9,103	117,923
Administrative Expense – Net	277,909	226,184	-	504,093
Capital Outlay – Net	(215,464)	-	185,862	(29,602)
Debt Service				
Debt Principal Payments	175,000	-	3,096	178,096
Interest Expense	33,325	-	2,826	36,151
Other	<u>2,281</u>	<u>-</u>	<u>17,793</u>	<u>20,074</u>
Total Expenditures	<u>\$ 5,288,882</u>	<u>\$ 4,350,939</u>	<u>\$ 218,680</u>	<u>\$ 9,858,501</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the financial statements of the governmental activities and major fund, of the Isabella County Road Commission as of and for the year ended September 30, 2006, which collectively comprise the Isabella County Road Commission's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Isabella County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated November 22, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Isabella County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 22, 2006

Isabella County Road Commission

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs From:				
Bureau of Indian Affairs	20.205	AGF50060003		\$ <u>334,358</u>
Pass-Through Programs From:				
Michigan Department of Transportation (Note 7)				
Broomfield Road Streetscape	20.205	STE 0537 (022)	83578	89,012
Broadway Road – Leaton Road West	20.205	FLH 0537 (020)	80104	537,706
Baseline Road to Vandecar Road	20.205	DOG 0437 (020)	77375	27,352
Broomfield Road 2 Signals	20.205	STP 0637 (010)	78231	200,000
Blanchard/Winn Corridor	20.205	BRO 37007	56542	4,269
Drew Road Bridge	20.205	BRT 0437 (018)	59710	20,650
Mission Road Intersection at US 127	20.205	STP 0537 (013)	59900	16,986
Mission Road over Tuscola Railroad	20.205	BRT 0537 (012)	56544	<u>230,390</u>
Subtotal – MDOT				<u>1,126,365</u>
Pass-Through Programs from the State of				
Michigan Department of Transportation (MDOT)				
Administered by the Isabella County Road Commission				
Broadway Road – Leaton Road West	20.205	FLH 0537 (020)	80104	184,781
Broadway Road – Leaton Road West	20.205	FLH 0437 (021)	80104	<u>2,808</u>
Subtotal ICRC Administered Awards				<u>187,589</u>
Total U.S. Department of Transportation				<u>1,313,954</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ <u>1,648,312</u></u>



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board of County Road Commissioners
Isabella County Road Commission
2261 E. Remus Road
Mt. Pleasant, Michigan 48858-9002

We have audited the basic financial statements of the Isabella County Road Commission for the year ended September 30, 2006, and have issued our report thereon dated November 22, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Isabella County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Isabella County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Isabella County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Isabella County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Isabella County Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road's financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Isabella County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Personnel Records – Some Employment Eligibility Verification Form I-9's were incomplete or not completed correctly. All Form I-9's should be completed accurately prior to employment to avoid potential penalties.

Status: Corrected.

Capitalization Policy – The Commission is required to develop a capitalization policy and guidelines for infrastructure and capital assets. A threshold of \$5,000 for infrastructure and \$1,000 for other capital assets should be sufficient for accurate reporting.

Purchase Orders – All purchase orders should be signed and provided to the Finance Director prior to ordering according to Commission policy. This procedure would notify the clerk of capital outlay expenditures which must be capitalized in the records.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Isabella County Road Commission required to implement the Statement for the year ended September 30, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Commission will be required to fund these benefits. Beginning in 2009, the Commission will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Board of Commissioners as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of management, the Isabella County Road Commission, state awarding agencies and pass-through entities, and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 22, 2006